

Department of Defense
Marine Corps - Marine Corps GF
CONSOLIDATED BALANCE SHEET
As of June 30, 2008 and 2007

DRAFT

	2008 Consolidated	2007 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	25,605,835,684.03	23,928,287,745.92
3. Accounts Receivable (Note 5)	53,964,097.85	35,685,923.04
4. Other Assets (Note 6)	950,561.55	1,076,098.84
5. Total Intragovernmental Assets	\$ 25,660,750,343.43	\$ 23,965,049,767.80
B. Cash and Other Monetary Assets (Note 7)	\$ 48,820,383.58	\$ 27,897,700.89
C. Accounts Receivable, Net (Note 5)	32,166,251.38	24,683,117.15
E. Inventory and Related Property, Net (Note 9)	5,998,019,987.71	5,634,746,245.63
F. General Property, Plant and Equipment, Net (Note 10)	11,643,611,110.57	8,756,709,493.94
H. Other Assets (Note 6)	767,537,884.55	709,659,957.25
2. TOTAL ASSETS	\$ 44,150,905,961.22	\$ 39,118,746,282.66
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
4. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 131,254,586.56	\$ 188,618,081.68
3. Other Liabilities (Note 15 & 16)	178,586,730.20	124,503,143.95
4. Total Intragovernmental Liabilities	\$ 309,841,316.76	\$ 313,121,225.63
B. Accounts Payable (Note 12)	\$ 1,019,316,965.47	\$ 647,130,193.35
C. Military Retirement and Other Federal Employment Benefits (Note 17)	216,868,384.90	220,468,677.71
D. Environmental and Disposal Liabilities (Note 14)	224,645,153.00	226,435,891.00
F. Other Liabilities (Note 15 & Note 16)	1,290,137,933.58	1,229,437,954.24
5. TOTAL LIABILITIES	\$ 3,060,809,753.71	\$ 2,636,593,941.93
6. NET POSITION		
B. Unexpended Appropriations - Other Funds	24,656,420,453.74	23,284,133,739.14
C. Cumulative Results of Operations - Earmarked Funds	556,587.52	453,692.49
D. Cumulative Results of Operations - Other Funds	16,433,119,166.25	13,197,564,909.10
7. TOTAL NET POSITION	\$ 41,090,096,207.51	\$ 36,482,152,340.73
8. TOTAL LIABILITIES AND NET POSITION	\$ 44,150,905,961.22	\$ 39,118,746,282.66

Note 1.**Significant Accounting Policies****1.A. Basis of Presentation**

The United States Marine Corps (USMC), a component of the Department of the Navy (DON) has prepared these financial statements to report the financial position and results of operations, as required by the “Chief Financial Officers (CFO) Act of 1990,” Public Law 101-590, expanded by the “Government Management Reform Act of 1994,” Public Law 103-356, and other appropriate legislation. Though USMC produces General Fund (GF) financial statements as a stand-alone entity, USMC remains a subsidiary of the DON financial statements and reporting process. The financial statements have been prepared from the books and records of USMC GF in accordance with the Department of Defense (DoD), Financial Management Regulation (FMR), the Office of Management and Budget (OMB) Circular No. A-136, “Financial Reporting Requirements,” and to the extent possible, generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which USMC GF is responsible unless otherwise noted. Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is not discernable. In addition to the financial statements, and pursuant to OMB directives, USMC GF also prepares financial reports that are used to monitor and control the use of budgetary resources.

The USMC GF is unable to fully implement all elements of GAAP and OMB Circular A-136, due to limitations of its financial and nonfinancial management processes and systems that feed into the financial statements. The USMC GF derives its reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The USMC GF continues to implement process and system improvements addressing these limitations.

The DoD currently has several auditor identified financial statement material weaknesses. The USMC Financial Improvement Initiative program completed in-depth assessment evaluations and has implemented several remediation action efforts, in progress of completing self-evaluation of management controls in compliance with Appendix A sections of OMB A-123 requirements. This effort identified the existence of the following financial statement material weaknesses: (1) Financial Management Systems, (2) Environmental Liabilities, (3) General Property, Plant, and Equipment, (3) Operating Materiel and Supplies, and (4) Accounts Payable. The USMC GF has designed and implemented remediation action to either eliminate or mitigate the financial reporting impact of the root cause and has resolved these issues. There are no other identified financial management weaknesses that are considered material in USMC GF’s financial management and reporting.

1.B. Mission of the Reporting Entity

The USMC was created on November 10, 1775 by an act of the 2nd Continental Congress. The overall mission of USMC is to provide trained and equipped forces to Combatant Commanders in support of the President's National Security Strategy. As set forth in the "National Security Act of 1947," USMC missions are: to seize and defend advanced naval bases and to conduct such land operations as may be essential to the prosecution of a naval campaign; to provide detachments and organizations for service in armed vessels of the Navy or for protection of naval property on naval stations and bases; to develop, with the other Armed Forces, the tactics, techniques, and equipment employed by landing forces in amphibious operations; to train and equip, as required, Marine forces for airborne operations; to develop, with the other Armed Forces, doctrine, procedures, and equipment of interest to USMC for airborne operations which are not provided for by the Army; and to be able to expand from a peacetime posture to meet the needs of war in accordance with mobilization plans.

1.C. Appropriations and Funds

The USMC GF receives its appropriations and funds as general, special, and deposit funds. These appropriations and funds may be either provided solely to USMC GF or shared with other DON activities. The USMC GF uses these appropriations and funds to execute its mission and subsequently report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including military personnel, operation and maintenance, research and development, and procurement.

Special funds accounts are used to record government receipts reserved for a specific purpose. Certain special funds may be designated as earmarked funds. Earmarked Funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. Earmarked funds also have a requirement to account for and report on the receipt, use and retention of revenues and other financing sources that distinguish them from general revenues.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. The USMC GF is acting as an agent or a custodian for funds awaiting distribution.

1.D. Basis of Accounting

The USMC operates a single general fund accounting system – the Standard Accounting, Budgeting, and Reporting System (SABRS). Through this system USMC GF records the majority of the financial transactions reflected in these financial statements. The SABRS is a transaction driven general ledger accounting system that utilizes standardized transactions for processing. General ledger postings are derived from centralized posting logic maintained in a table within the accounting system and applied against detail transactions. The posting logic on this table is maintained in

accordance with all applicable guidance and attempts to meet the standards of GAAP. Both budgetary and proprietary general ledgers are maintained and utilized for reporting. Transactions are entered into the accounting system via interfaces with financial feeder systems, electronically or manually.

The SABRS is interfaced with DoD approved business enterprise systems, such as the Defense Travel System, Standard Procurement System, Defense Civilian Personnel System, and Wide Area Work Flow. These interfaces improve financial reporting and eliminate manual recording by capturing data from the source systems. The SABRS is also Standard Financial Information Structure (SFIS) Phase 1 compliant. The SFIS will provide DoD a solution for identifying financial events in a like manner for all DoD components.

For FY 2008, USMC GF's financial management systems are unable to meet all requirements for full accrual accounting. Many of USMC GF's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of USMC GF's (financial and nonfinancial) legacy systems were designed to record information on a budgetary basis.

The DoD has undertaken efforts to determine the actions required to bring financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). The USMC GF accounting system, SABRS, is USSGL compliant. Until all of USMC GF's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, USMC GF's financial data will be derived from budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities.

The USMC GF has initiated efforts to design and implement the use of a statistical-based estimation model to provide an estimate of period end accruals. This model is applied at the (payment) feeder system level to provide a documented accrual estimate based on historical transaction based projections. In addition, the statistical-based estimation model accrual will be supplemented with documented major contract accruals based on the SABRS core financial system transaction record values for selected contracts standard document number.

In addition, DoD identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the "Government Performance and Results Act" (GPRA). The DoD is working towards a cost reporting methodology that meets the need for cost information required

by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, “Managerial Cost Accounting Concepts and Standards for the Federal Government.”

1.E. Revenues and Other Financing Sources

The USMC GF receives congressional appropriations as financing sources for general funds on either an annual or a multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The USMC GF recognizes revenue as a result of costs incurred or services provided to other federal agencies and the public. Full cost pricing is USMC GF’s standard policy for services provided as required by OMB Circular A-25, “Transmittal Memorandum #1, User Charges.” The USMC GF recognizes revenue when earned within the constraints of current system capabilities. In some instances, revenue is recognized when bills are issued.

The USMC GF does not include nonmonetary support provided by U.S. allies for common defense and mutual security in the Statement of Net Cost and the Note 21, “Reconciliation of Net Cost of Operations to Budget.” The U.S. has cost sharing agreements with other countries that include both direct and indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. fleet is in port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because USMC GF’s financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accruals are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. In the case of Operating Materiel and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to transition toward the consumption method for recognizing OM&S expenses. Operating expenses are adjusted as a result of the elimination of trading partner balances between DoD components. Net increases or decreases in unexpended appropriations are recognized as a change in the net position.

1.G. Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. The USMC GF accounts for all intragovernmental transactions at the transaction level. In an effort to more efficiently identify intragovernmental transactions by customer, USMC GF has implemented the DoD’ trading partner requirements in its accounting system to capture trading partner data. Generally, seller entities within DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to

the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. IntraDoD intragovernmental balances are then eliminated. DoD system limitations and the volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources. The DoD is developing long-term system improvements that will include sufficient up-front edits and controls eliminating the need for after-the-fact reconciliations.

The U.S. Treasury Financial Management Services is responsible for eliminating transactions between DoD and other federal agencies. The Treasury Financial Manual, Part 2-Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government" and the U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" provide guidance for reporting and reconciling intragovernmental balances. While USMC GF is unable to fully reconcile intragovernmental transactions with all federal partners, USMC GF is able to reconcile balances pertaining to "Federal Employees' Compensation Act" transactions with the Department of Labor, and benefit program transactions with Office of Personnel Management.

The DoD's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such interest costs to the benefiting agencies.

1.H. Transactions with Foreign Governments and International Organizations

Each year, USMC GF sells defense articles and services to foreign governments and international organizations under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, DoD has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Payment in U.S. dollars is required in advance.

1.I. Funds with the U.S. Treasury

The USMC GF monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of DFAS, the Military Services, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of USMC GF's cash collections, disbursements, and adjustments

worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

The DFAS has been charged with the responsibility to performing a detailed reconciliation of USMC GF appropriated fund accounts. The reconciliation process results in identifying all reconciling items and through subsequent corrective action has resolved all material unmatched disbursement transactions.

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable fund balance with treasury account. Differences between USMC GF/DON GF's recorded balance in the fund balance with treasury accounts and U.S. Treasury's fund balance with treasury accounts sometimes result and are subsequently reconciled.

1.J. Foreign Currency

Cash is the total of cash resources under the control of DoD, which includes coin, paper currency, negotiable instruments, and amounts held for deposits in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts.

The majority of cash and all foreign currency is classified as nonentity and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The USMC GF conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: operations and maintenance, military personnel, military construction, family housing operations and maintenance, and family housing construction. The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustment to the original obligation amount at the time of payment. The USMC GF does not separately identify currency fluctuation transactions.

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes three categories: accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection history by fund type. The DoD does not recognize an allowance for

estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The USMC GF reports its inventory of repair parts, munitions, and ammunition in related property as OM&S. The USMC GF manages only military or government specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes all items (including ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repairs parts, and support equipment, but excluding real property, installations, and utilities) necessary to equip, operate, maintain and support military activities without distinction as to its application for administrative or combat purposes. Items commonly used in and available from the commercial sector are not managed in USMC GF OM&S management activities. The USMC GF holds materiel based on military need and support for contingencies.

The USMC GF OM&S are presented at the Lower Cost or Market basis using the following pricing methodology. The OM&S non-ammunition inventories are valued at cost using the Latest Acquisition Cost (LAC) method and are comprised of high-volume, high-turnover, lower unit price supplies. The LAC unit prices represent end of period contract prices. All other categories of OM&S inventories are maintained at the historical unit price. The USMC GF has established an interface between the operating materiel supply systems and its core financial accounting system, SABRS.

The USMC GF plans to implement DoD Moving Average Cost inventory pricing policy when the currently planned Global Combat Support System (GCSS) and the Conventional Ammunition Integrated Management System – Ordinance Information System (CAIMS-OIS) is implemented and integrated as a core non-ammunition and munitions inventory systems are integrated with the USMC GF core financial management system, SABRS.

Most of USMC GF's OM&S inventories are currently reported at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The USMC GF uses the latest acquisition cost method because legacy OM&S inventory systems were designed for materiel management rather than accounting. Although the legacy systems provide visibility and accountability over items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the "Federal Financial

Management Improvement Act of 1996” (Public Law 104-208). The OM&S, including munitions not held for sale are valued at standard purchase price.

The USMC GF uses the consumption method for centrally managed and stored inventories such as ammunition, tactical missiles, spare parts, and engines. Non-centrally managed inventories are accounted for on a purchase method which expenses these materiel and supplies as purposed. The GCSS system will serve to provide unit accountability to account for all items on the consumption method of accounting. For FY 2008 OM&S inventories are presented in accordance with GAAP. The USMC GF determined that the recurring high dollar value of OM&S in need of repair is materiel to the financial statements and requires a separate reporting category. Many high dollar items are categorized as OM&S rather than military equipments.

The USMC GF recognizes condemned materiel as “Excess, Obsolete, and Unserviceable.” The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero. Potentially redistributed materiel, presented in previous years as “Excess, Obsolete, and Unserviceable,” is included in the “Held for Use” or “Held for Repair” categories according to its condition.

1.N. Investments in U.S. Treasury Securities

The USMC GF investments in U.S. Treasury securities are reported in the DON General Fund Financial Statements.

1.O. General Property, Plant and Equipment

The USMC GF uses the estimated historical cost for valuing military equipment. The DoD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, and program acquisitions and disposals to create a baseline. The military equipment baseline is updated using expenditure, acquisition and disposals information.

The DoD real property capitalization threshold is currently \$20 thousand. The USMC GF has not implemented this threshold due system and process limitations and is currently using the capitalization threshold of \$100 thousand. Not all military departments have implemented this revised policy due to system and process limitations.

General PP&E assets, exclusive of military equipment, are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and the acquisition cost equals or exceeds DoD’s capitalization threshold of \$100 thousand. The DoD also requires capitalization of improvement costs over the DoD capitalization threshold of \$100 thousand for General PP&E. The DoD depreciates all General PP&E, other than land, which is not depreciated, on a straight-line basis. General PP&E previously capitalized at amounts below \$100 thousand were written off GF financial statements in FY 1998.

When it is in the best interest of the government, the USMC GF provides government property to contractors to complete contract work. The USMC GF either owns or leases such property, or it is purchased directly by the contractor for the government based on the contract terms. When the value of contractor-procured General PP&E exceeds the DoD capitalization threshold, Federal accounting standards require that it be reported on USMC GF's Balance Sheet.

The DoD is developing new policies and a contractor reporting process for Government Furnished Equipment that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, USMC GF reports only government property in the possession of contractors that is maintained in USMC GF's property systems. The DoD has issued new property accountability and reporting requirements that require USMC GF to maintain, in their property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with Federal accounting standards. The USMC GF has established an interface between its accounting system and the Defense Property Accountability System in order to decrease the amount of manual journal vouchers and data calls and increase the efficiency of reported data.

1.P. Advances and Prepayments

The DoD's policy is to record advances and prepayments in accordance with GAAP. As such, payments in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. Not all DoD entities have implemented this policy primarily due to system limitations.

1.Q. Leases

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), USMC GF records the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The USMC GF records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The USMC GF as the lessee receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

Office space and leases entered into by USMC GF in support of contingency operations are the largest component operating leases. These costs were gathered from existing

leases, General Services Administration (GSA) bills, and Inter-service Support Agreements. Future year projections use the Consumer Price Index (CPI), rather than DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites. Equipment leases have a variety of lease terms which are not expected to be renewed upon expiration. Other operating leases are generally one-year leases. The USMC GF expects to continue to reduce the level of owned assets while increasing the number of leased assets. The USMC GF will strive to displace commercial leases with more economical GSA leases.

1.R. Other Assets

Other assets includes those assets, such as military and civil service employee pay advances, travel advances, and certain contracting financing payments that are not reported elsewhere on USMC GF's Balance Sheet.

The USMC GF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, USMC GF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations (FAR), Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Federal Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense FAR Supplement authorizes only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. It is DoD policy to record contract financing payments as Other Assets. The USMC GF does not make financing payment for real property construction; USMC GF construction projects are managed by the Navy and reported in DON Balance Sheet and related notes.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by the SFFAS No 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The USMC GF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The USMC GF's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship, and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for USMC GF's assets. This type of liability has two components: nonenvironmental and environmental. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of the asset based upon DoD's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government." The DoD recognizes nonenvironmental disposal liabilities for military equipment nuclear-powered assets when placed in service. Such amounts are developed in conjunction with, and not easily identifiable from, environmental disposal costs. The USMC GF does not have nuclear-powered assets, therefore, does not recognize nonenvironmental disposal liabilities for military equipment nuclear-powered assets.

1.T. Accrued Leave

The USMC GF reports as liabilities military leave and civilian earned leave, except sick leave, that has been accrued and not used as of the Balance Sheet date. Sick leave is expensed as taken. The liability reported at the end of the accounting period reflects the current pay rates.

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred. Cumulative results of operations represent the net difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, the cumulative results also include donations and transfers in and out of assets that were not reimbursement.

1.V. Treaties for Use of Foreign Bases

The DoD has the use of the land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The USMC GF purchases capital assets overseas with

appropriated funds; however, the host country retains the title to land and improvements. Generally, treaty terms allow USMC GF continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, whereby use of the foreign bases is prohibited, losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Comparative Data

The USMC GF financial statements and notes are presented on a comparative basis.

1.X. Unexpended Obligations

The USMC GF obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered unless title passes.

1.Y. Undistributed Disbursements and Collection

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. These amounts should agree with undistributed amounts reported on the monthly accounting reports. In-transit payments are those payments that have been made, but have not been recorded in the fund holder's accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities.

1.Z. Significant Events

Beginning 4th Quarter, FY 2007, DoD began presenting the Statement of Financing (SOF) as a note in accordance with OMB Circular A-136. The SOF will no longer be considered a basic statement; but is now referred to as "Reconciliation of Net Cost of Operations to Budget."

Note 2.	Nonentity Assets
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As of June 30	2008	2007
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 76,292,866.71	\$ 35,127,113.87
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 76,292,866.71	\$ 35,127,113.87
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 48,820,383.58	\$ 27,897,700.89
B. Accounts Receivable	381,056.53	250,855.18
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 49,201,440.11	\$ 28,148,556.07
3. Total Nonentity Assets	\$ 125,494,306.82	\$ 63,275,669.94
4. Total Entity Assets	\$ 44,025,411,654.40	\$ 39,055,470,612.72
5. Total Assets	\$ 44,150,905,961.22	\$ 39,118,746,282.66

Nonentity assets are assets for which USMC GF maintains stewardship accountability and responsibility to report, but are not available for USMC's operations.

The nonentity fund balance with treasury represents amounts in USMC GF deposit fund accounts. The deposit fund accounts contain various withholdings from Marines' pay such as taxes, allotments, and garnishments held until the appropriate disbursement date. The USMC GF maintains stewardship accountability and reporting responsibility for these assets, but the assets are not available for use in operations.

Nonentity cash and other monetary assets represent disbursing officers' cash and foreign currency as reported on the Statement of Accountability. These assets are held by USMC disbursing officers, as agents of the U.S. Treasury, and are not available for use in USMC's operations.

The nonentity nonfederal accounts receivable represents interest, fines and penalties receivable on aged delinquent debt. Once collected, nonentity receivables are deposited to the U.S. Treasury as miscellaneous receipts.

Note 3.	Fund Balance with Treasury
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As of June 30	2008	2007
1. Fund Balances		
A. Appropriated Funds	\$ 25,528,960,497.28	\$ 23,892,674,697.68
B. Revolving Funds	0.00	0.00
C. Trust Funds	0.00	0.00
D. Special Funds	582,320.04	485,934.37
E. Other Fund Types	76,292,866.71	35,127,113.87
F. Total Fund Balances	\$ 25,605,835,684.03	\$ 23,928,287,745.92
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 19,081,765,441.28	\$ 21,835,548,985.76
B. Fund Balance per USMC GF	25,605,835,684.03	23,928,287,745.92
3. Reconciling Amount	\$ (6,524,070,242.75)	\$ (2,092,738,760.16)

Explanation of Reconciliation Amount

(In thousands)

Shared Appropriations per USMC GF*	\$2,458,294
Suspense and Deposit Accounts per USMC GF**	(32,727)
Amounts Appropriated ***	4,098,503
Total Reconciling Amount	\$6,524,070

*This amount is the fund balance with Treasury for USMC GF portion of appropriations shared with the U.S. Navy: Research and Development, Test and Evaluation, Navy; Procurement of Ammunition, Navy and Marine Corps; Wildlife Conservation, Military Reservations, Navy; and Family Housing Operation and Maintenance, Navy and Marine Corps. The U.S. Treasury maintains and reports fund balances at the Treasury Index appropriation level. As a result, the U.S. Treasury does not separately identify USMC GF portion of fund balance with Treasury for the shared appropriations.

**This amount is the fund balance with Treasury for suspense and deposit accounts shared with the U.S. Navy: Disbursing Officer Suspense Account; Lost or Cancelled Treasury Checks Suspense Account; Interfund/Intragovernmental Payment and Collection (IPAC) Suspense Account; and Small Escrow Amounts Deposit Account. The U.S. Treasury does not separately identify USMC GF portion of fund balance with treasury for the shared suspense and deposit accounts.

***This amount is the total fund balance with Treasury for the appropriations that were approved for supplemental funding bill passed on June 30, 2008, for which the Treasury warrant was not processed until July 1, 2008.

Other fund types represent USMC GF deposit fund accounts. The deposit fund accounts contain various withholdings from Marines' pay such as taxes, allotments, and garnishments held until the appropriate disbursement date. The USMC GF maintains stewardship accountability and reporting responsibility for these assets, but the assets are not available for use in USMC GF operations.

Status of Fund Balance with Treasury

As of June 30	2008	2007
1. Unobligated Balance		
A. Available	\$ 8,726,217,743.50	\$ 10,293,571,476.64
B. Unavailable	4,872,123,416.63	654,972,092.38
2. Obligated Balance not yet Disbursed	\$ 12,269,834,707.57	\$ 13,219,107,086.52
3. Nonbudgetary FBWT	\$ 51,438,960.36	\$ 14,843,639.11
4. NonFBWT Budgetary Accounts	\$ (313,779,144.03)	\$ (254,206,548.73)
5. Total	<u>\$ 25,605,835,684.03</u>	<u>\$ 23,928,287,745.92</u>

Status of Fund Balance with Treasury

The Status of Fund Balance with Treasury reflects the budgetary resources to support the fund balance with Treasury.

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Unobligated balance is classified as available or unavailable and is associated with appropriations expiring at fiscal year end that remain available only for obligation adjustments until the account is closed.

Obligated balance not yet disbursed represents funds that have been obligated for goods that have not been received, services that have not been performed, and goods and services that have been delivered/received but not yet paid.

Nonbudgetary fund balance with Treasury includes entity and nonentity fund balance with Treasury accounts which represent adjustments that do not have budgetary authority, such as unavailable receipt accounts or clearing accounts. Nonbudgetary fund balance with Treasury is comprised of the fund balance with Treasury for the Disbursing Officer Suspense Account, Lost or Cancelled Treasury Checks Suspense Account, Interfund/IPAC Suspense Account, Small Escrow Accounts Deposit Account, and the Pay of the Marine Corps Deposit Account.

Nonfund balance with Treasury budgetary accounts represent adjustments to budgetary accounts that do not affect fund balance with Treasury. Nonfund balance with Treasury budgetary accounts are comprised of unfilled customer orders without advance and reimbursements and other income earned-receivable. This category reduces the Status of Fund Balance with Treasury.

Unobligated balances are segregated to show available and unavailable amounts in the note schedule. Certain unobligated balances may be restricted to future use and are not apportioned for current use. The USMC GF has no restrictions on unavailable/unobligated balances

Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2006	2007	2008	(Decrease)/ Increase from FY 2007 - 2008
Account				
F3845 – Personal Property Proceeds	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Budget Clearing Account Suspense	(16,965,069.51)	(20,274,421.23)	(25,316,812.29)	(5,042,391.06)
F3880 – Lost or Cancelled Treasury Checks	(22,594.78)	(9,053.53)	(97,489.06)	(88,435.53)
F3882 – Uniformed Services Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
F3885 – Interfund/IPAC Suspense	0.00	0.00	560,395.00	560,395.00
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
Total	<u>\$ (16,987,664.29)</u>	<u>\$ (20,283,474.76)</u>	<u>\$ (24,853,906.35)</u>	<u>\$ (4,570,431.59)</u>

Disclosures Related to Problem Disbursements

As of June 30	2006	2007	2008	(Decrease)/ Increase from FY 2007 to 2008
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	\$ 50,497,703.22	\$ 31,582,067.29	\$ 54,560,581.24	\$ 22,978,513.95
B. Negative Unliquidated Obligations (NULO)	8,056,553.06	5,636,003.86	17,380,414.67	11,744,410.81
C. In-Transit Disbursements	26,671,638.36	327,520,339.63	262,838,751.07	(64,681,588.56)
Total	\$ 85,225,894.64	\$ 364,738,410.78	\$ 334,779,746.98	\$ (29,958,663.80)

Note 4.	Investments and Related Interest
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As of June 30	2008				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	0.00		0.00	0.00	0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

As of June 30	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	0.00		0.00	0.00	0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	0.00
4. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

The USMC GF investments and related interest are reported under the Department of the Navy General Fund.

Note 5.	Accounts Receivable
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As of June 30	2008			2007
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 53,964,097.85	N/A	\$ 53,964,097.85	\$ 35,685,923.04
2. Nonfederal Receivables (From the Public)	\$ 43,816,814.74	\$ (11,650,563.36)	\$ 32,166,251.38	\$ 24,683,117.15
3. Total Accounts Receivable	\$ 97,780,912.59	\$ (11,650,563.36)	\$ 86,130,349.23	\$ 60,369,040.19

Aged Accounts Receivable

As of June 30	2008		4th Quarter 2007	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	\$ 48,217,614.61	\$ 22,786,316.07	\$ 62,069,133.49	\$ 36,122,033.58
Noncurrent	0.00	0.00	0.00	0.00
Delinquent				
1 to 30 days	\$ 2,475,773.99	\$ 13,845,473.78	\$ 319,688.52	\$ 6,672,157.35
31 to 60 days	685,703.24	1,687,588.54	45,595.84	860,465.20
61 to 90 days	4,991,586.24	1,251,411.80	11,699.83	1,244,190.89
91 to 180 days	50,742.89	(251,673.24)	113,548.42	1,423,985.90
181 days to 1 year	9,594.99	1,051,869.24	35,897.97	1,685,747.72
Greater than 1 year and less than or equal to 2 years	0.00	2,596,673.31	0.00	2,215,868.08
Greater than 2 years and less than or equal to 6 years	0.00	672,728.96	0.00	523,915.66
Greater than 6 years and less than or equal to 10 years	0.00	105,823.17	0.00	206,069.34
Greater than 10 years	0.00	53,321.78	0.00	60,210.72
Subtotal	\$ 56,431,015.96	\$ 43,799,533.41	\$ 62,595,564.07	\$ 51,014,644.44
Less Supported Undistributed Collections	(1,286,447.88)	10,946.82	(15,436,043.87)	(10,459,166.08)
Less Eliminations	(1,180,470.23)	0.00	10,356,575.29	0.00
Less Other	0.00	0.00	0.00	0.00
Total	\$ 53,964,097.85	\$ 43,810,480.23	\$ 57,516,095.49	\$ 40,555,478.36

Note 6.	Other Assets
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As of June 30	2008	2007
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 950,561.55	\$ 1,076,098.84
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 950,561.55	\$ 1,076,098.84
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 735,848,898.60	\$ 681,741,318.37
B. Advances and Prepayments on behalf of Foreign Governments	0.00	0.00
C. Advances and Prepayments	31,688,985.95	27,918,638.88
D. Other Assets (With the Public)	0.00	0.00
E. Total Nonfederal Other Assets	\$ 767,537,884.55	\$ 709,659,957.25
3. Total Other Assets	\$ 768,488,446.10	\$ 710,736,056.09

Other assets (with the public) is comprised of travel advances made to Marines and civilian personnel.

Contract terms and conditions for certain types of contract financing payments convey certain rights to USMC GF that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy; however, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Government. The Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and USMC GF is not obligated to make payment to the contractor until delivery and acceptance.

The Contract Financing Payment balance of \$735.8 million is comprised of \$688 million in contract financing payments and an additional \$47.8 million in estimated future payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

Note 7.	Cash and Other Monetary Assets
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As of June 30	2008	2007
1. Cash	\$ 48,820,383.58	\$ 27,883,063.21
2. Foreign Currency	0.00	14,637.68
3. Other Monetary Assets	0.00	0.00
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 48,820,383.58	\$ 27,897,700.89

Cash and foreign currency are nonentity assets and, as such, are considered restricted assets that are held by USMC GF but not available to use in its operations. Cash or \$48.8 million is restricted. Cash is held by USMC disbursing officers as agents of the U.S. Treasury.

The amounts reported as cash consist of cash held by disbursing officers to carry out their payment, collection, and foreign currency accommodation exchange mission. The source of the amounts reported is the Statement of Accountability, a DoD disbursing officer's report.

Note 9.	Inventory and Related Property
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As of June 30	2008	2007
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materiel & Supplies, Net	5,998,019,987.71	5,634,746,245.63
3. Stockpile Materiel, Net	0.00	0.00
4. Total	\$ 5,998,019,987.71	\$ 5,634,746,245.63

Inventory, Net

As of June 30	2008			2007	Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
1. Inventory Categories					
A. Available and Purchased for Resale	\$ 0.00	\$ 0.00	0.00	\$ 0.00	LAC,MAC
B. Held for Repair	0.00	0.00	0.00	0.00	LAC,MAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	NRV
D. Raw Materiel	0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process	0.00	0.00	0.00	0.00	AC
F. Total	\$ 0.00	\$ 0.00	0.00	\$ 0.00	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

MAC = Moving Average Cost

Operating Materiel and Supplies, Net

As of June 30	2008			2007	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
1. OM&S Categories					
A. Held for Use	\$ 5,493,200,174.64	\$ 0.00	\$ 5,493,200,174.64	\$ 5,066,790,617.89	SP, LAC
B. Held for Repair	504,819,813.07	0.00	504,819,813.07	567,955,627.74	SP, LAC
C. Excess, Obsolete, and Unserviceable	82,226,263.63	(82,226,263.63)	0.00	0.00	NRV
D. Total	\$ 6,080,246,251.34	\$ (82,226,263.63)	\$ 5,998,019,987.71	\$ 5,634,746,245.63	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

MAC = Moving Average Cost

General Composition of Operating Materiel and Supplies (OM&S)

The OM&S includes (1) ammunition and munitions that consists of spare and repair parts and conventional missiles, and (2) Appropriation Purchase Account (APA) Secondary Inventory that consists of spare and repair parts, clothing and textiles, medical and dental supplies, and fuel.

Restrictions on Operating Materiel and Supplies

There are no restrictions on the use of OM&S.

Decision Criteria for Identifying the Category to which Operating Materiel and Supplies are Assigned

The USMC GF determines reporting categories for OM&S based on condition codes assigned to individual inventory items.

Of the \$6.0 billion OM&S, \$4.5 billion is valued using latest acquisition cost adjusted for gains and losses, the remaining, \$1.5 billion is valued at standard price.

Stockpile Materiel, Net

As of June 30	2008			2007	Valuation Method
	Stockpile Materiel Amount	Allowance for Gains (Losses)	Stockpile Materiel, Net	Stockpile Materiel, Net	
1. Stockpile Materiel Categories					
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	AC, LCM
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost

NRV = Net Realizable Value
LCM = Lower of Cost or Market
O = Other

Note 10. General PP&E, Net

As of June 30	2008					2007
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
1. Major Asset Classes						
A. Land	N/A	N/A	\$ 166,286,376.00	N/A	\$ 166,286,376.00	\$ 156,004,689.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	7,768,531,671.00	\$ (4,053,241,971.42)	3,715,289,699.58	3,559,585,651.41
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00	0.00
D. Software	S/L	2-5 Or 10	0.00	0.00	0.00	0.00
E. General Equipment	S/L	5 or 10	505,940,704.09	(163,401,054.10)	342,539,649.99	42,589,909.53
F. Military Equipment	S/L	Various	9,559,638,674.00	(2,140,143,289.00)	7,419,495,385.00	4,998,529,244.00
G. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00	0.00
H. Construction-in- Progress	N/A	N/A	0.00	N/A	0.00	0.00
I. Other			0.00	0.00	0.00	0.00
J. Total General PP&E			\$ 18,000,397,425.09	\$ (6,356,786,314.52)	\$ 11,643,611,110.57	\$ 8,756,709,493.94

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line N/A = Not Applicable

Restrictions on the use or convertibility of General Property, Plant, and Equipment (PP&E), Net
For USMC GF sites outside of the continental U.S. there are no restrictions on the use or convertibility of General PP&E in accordance with international agreements with Japan. We have no information regarding restrictions on USMC GF General PP&E in Iraq or Afghanistan.

Heritage Assets

The processes used to define items as having heritage significance vary between categories and type of assets being evaluated. Subject matter experts, including historians and curators, play a significant role in the definition process in addition to other criteria such as being listed on the National Register of Historic Places. In all cases, a myriad of federal statutes, service regulations, and other guidelines mandate heritage significance or provide guidance in its determination.

The methodology used to report the condition of the heritage assets was a combination of visual assessment of the objects, historic value to USMC GF collection, and general display and storage standards for historic collections. The overall condition of the collection objects is good.

Stewardship Land

The USMC GF follows Department of Defense (DoD) Financial Management Regulation definition of stewardship land to include public domain, land set aside, and donated land. Within the definition of stewardship land, land can be further categorized as improved, semi-

improved or in the other category of land. Some of this land is used as a buffer around perimeter of Marine Corps installations but is not limited to, grazing land and forestry maintenance areas. The USMC GF strives to be a responsible steward of the land and maintain it in a way that protect human health and the environmental and allows for training and support of force readiness.

Museums

Museums are buildings, places, or institutions devoted to the acquisition, conservation, study, exhibition, and educational interpretation of objects having scientific, historical, or artistic value. The Secretary of the Navy Instruction 5755.1A, "Navy Museums," defines the scope of the Navy Museum program.

Any additional information regarding heritage assets, multi-use heritage assets, and stewardship land is reported in Required Supplementary Information.

Assets Under Capital Lease

As of June 30	2008	2007
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 0.00	\$ 0.00
B. Equipment	0.00	0.00
C. Accumulated Amortization	0.00	0.00
D. Total Capital Leases	<u>\$ 0.00</u>	<u>\$ 0.00</u>

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of June 30	2008	2007
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 605,704.72	\$ 0.00
B. Debt	0.00	0.00
C. Other	123,565,555.14	78,924,688.22
D. Total Intragovernmental Liabilities	\$ 124,171,259.86	\$ 78,924,688.22
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 3,114,003.38	\$ 2,186,172.48
B. Military Retirement and Other Federal Employment Benefits	215,229,341.85	214,433,189.58
C. Environmental Liabilities	224,645,153.00	226,435,891.00
D. Other Liabilities	724,952,494.73	679,699,731.75
E. Total Nonfederal Liabilities	\$ 1,167,940,992.96	\$ 1,122,754,984.81
3. Total Liabilities Not Covered by Budgetary Resources	\$ 1,292,112,252.82	\$ 1,201,679,673.03
4. Total Liabilities Covered by Budgetary Resources	\$ 1,768,697,500.89	\$ 1,434,914,268.90
5. Total Liabilities	\$ 3,060,809,753.71	\$ 2,636,593,941.93

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided.

Material Amounts Not Covered by Budgetary Resources.

Unfunded military and civilian leave liability, \$684.2 million leave is not covered by budgetary resources because it is funded as leave is taken. Environmental Liabilities, \$224.6 million, are estimates related to future events that will be budgeted for when those assets are removed from service and cleaned up in future years. The Military Retirement and Other Federal Employment Benefits, \$215.2 million are future actuarial liabilities. These liabilities are not covered by realized budgetary resources as of the Balance Sheet date. Budgetary authority to satisfy these liabilities is expected to be provided in a future Defense Appropriations Act. When that future budgetary authority is provided, these respective liabilities will be recorded as covered by budgetary resources with an associated funded expense.

Intragovernmental liabilities – other (not covered by budgetary resources) includes liability for nonentity assets (disbursing officer's cash), \$49.2 million, FECA, \$45.4 million, and unemployment compensation, \$29.0 million.

Nonfederal liabilities - other liabilities (not covered by budgetary resources) includes civilian and military unfunded leave liability, \$684.2 million.

Military Retirement and other Federal Employment Benefits not covered by budgetary resources is comprised of various employee actuarial Federal Employees Compensation Act liabilities not due and payable during the current fiscal year. Refer to Note 17, "Military Retirement and Other Federal Employment Benefits," for additional details and disclosures.

Note 12.	Accounts Payable
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As of June 30	2008			2007
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 131,254,586.56	\$ N/A	\$ 131,254,586.56	\$ 188,618,081.68
2. Nonfederal Payables (to the Public)	1,019,316,965.47	0.00	1,019,316,965.47	647,130,193.35
3. Total	\$ 1,150,571,552.03	\$ 0.00	\$ 1,150,571,552.03	\$ 835,748,275.03

The USMC GF's systems do not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer-side balances are adjusted to agree with internal seller-side balances for revenue, accounts receivable, and unearned revenue. Accounts payable were adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13.	Debt
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As of June 30	2008			2007	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)					
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Total Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

Note 14.**Environmental Liabilities and Disposal Liabilities**

As of June 30	2008			2007
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities--				
Nonfederal				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Active Installations—Military Munitions Response Program (MMRP)	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites—IRP and BD/DR	0.00	0.00	0.00	0.00
4. Formerly Used Defense Sites--MMRP	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Liabilities—Non-BRAC				
1. Environmental Corrective Action	0.00	30,956,023.00	30,956,023.00	40,636,736.00
2. Environmental Closure Requirements	0.00	193,689,130.00	193,689,130.00	185,799,155.00
3. Environmental Response at Operational Ranges	0.00	0.00	0.00	0.00
4. Asbestos	0.00	0.00	0.00	0.00
5. Non-Military Equipment	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure Installations				
1. Installation Restoration Program	0.00	0.00	0.00	0.00
2. Military Munitions Response Program	0.00	0.00	0.00	0.00
3. Environmental Corrective Action / Closure Requirements	0.00	0.00	0.00	0.00
4. Asbestos	0.00	0.00	0.00	0.00
5. Non-Military Equipment	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Military Equipment / Weapons Programs				
1. Nuclear Powered Military Equipment / Spent Nuclear Fuel	0.00	0.00	0.00	0.00
2. Non-Nuclear Powered Military Equipment	0.00	0.00	0.00	0.00
3. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
E. Chemical Weapons Disposal Programs				
1. Chemical Agents and Munitions Destruction (CAMD)	0.00	0.00	0.00	0.00
2. CAMD Assembled Chemical Weapons Assessment (ACWA)	0.00	0.00	0.00	0.00
3. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities	\$ 0.00	\$ 224,645,153.00	\$ 224,645,153.00	\$ 226,435,891.00

Environmental Liabilities Nonfederal

Other Accrued Environmental Liabilities – NonBRAC

In the 3rd Quarter, FY 2008, USMC GF reported \$31.0 million in Environmental Corrective Action and \$193.7 million in Environmental Closure Requirements. The USMC GF is continuing efforts to complete their survey and estimations of USMC GF environmental liabilities of closure/decommissioning requirements for ongoing operations.

The Resource Conservation and Recovery Act (RCRA) of 1976 as amended by the Hazardous and Solid Waste Amendments of 1984, was the first comprehensive federal effort to deal with safe disposal of all types of hazardous wastes, and provides for “cradle to grave” tracking of hazardous wastes. The RCRA addresses and requires permits for solid waste and hazardous waste closure and corrective action, including solid waste landfill and hazardous waste permitted storage facility closures. Permits are required for treatment, storage or disposal. Requirements for underground storage tanks are also contained in RCRA.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), commonly referred to as the Superfund legislation, provided for Federal agencies authority to respond to the release or the substantial threat of release of hazardous substances into the environment. The CERCLA was amended several times; one of the amendments was the Superfund Amendment and Reauthorization Act of 1986. This amendment established procedures to ensure that actual or threatened hazardous substance releases have proper responses. The procedures address reporting, investigating, remedy selection, and responsive provisions.

The Clean Water Act (CWA) of 1977, Section 405 Disposal of Sewage Sludge, amended the Federal Water Pollution Control Act. The purpose of CWA is to restore and maintain the integrity of the nation’s waters. Facilities may dispose of sewage sludge on site from the operation of a treatment works. The CWA implementing regulations established closure and post closure requirements for sewage sludge disposal. To help protect the nation’s drinking water supply, including underground injections through a permitting scheme implemented by the states is the purpose of the Safe Drinking Water Act (SDWA) of 1974, amended in 1986 to include Wellhead Protection Areas. The SDWA regulates the underground disposal of wastes in deep wells and establishes a program to protect public water supply wells. One requirement to protect public water supply wells addresses closure of Class I injection wells used for industrial hazardous, industrial nonhazardous and municipal (nonhazardous) waste.

The USMC GF uses engineering estimates and independently validated models to estimate environmental costs. The models are contained within the Remedial Action Cost Engineering Requirements and the Normalization of Data System. The Department validates the models in accordance with DoD Instruction 5000.61 and primarily uses the models to estimate the liabilities based on data received during a preliminary assessment and initial site investigation. The USMC GF primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cost estimates are complete, USMC GF complies with accounting standards to assign costs to current operating periods. The USMC GF has already expensed the costs for cleanup associated with General PP&E placed into service prior to

October 1, 1997, unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, then the USMC GF expensed that portion of the asset that has passed since General PP&E was placed into service and is systematically recognizing the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the USMC GF expenses the associated environmental costs systematically over the life of the asset. The USMC GF expenses the full cost to clean up contamination for Stewardship PP&E at the time the asset is placed into service.

The USMC GF uses two methods for systematic recognition: physical capacity for operating landfills and life expectancy in years for all other assets.

Other Accrued Environmental Costs (NonDERP funds), Cost, Base Realignment and Closure (BRAC), and Environmental Disposal for Weapons systems Programs

The USMC GF defines NonDERP environmental sites/units as those sites/units associated with on-going operations such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retro fill, and/or disposal of the Polychlorinated Biphenyls (PCB) transformers, underground storage tank remedial investigation and closure. The USMC GF has reported NonDERP environmental liabilities for USMC GF installations totaled 225 projects and covered approximately 3,290 sites. The projects span the following nonDERP reporting categories: (1) closure for units or sites put into service prior to September 30, 1997, (2) closure for units or sites put into service after September 30, 1997, and (3) corrective actions. There are no projects that are categorized as NonDERP environmental liability for “response at active ranges” and other reporting categories. For units or sites put into service after September 30, 1997, the number of years of service was used to allocate the liability for the current fiscal year and the accumulated liability to date.

The U.S. Navy centrally manages and executes DERP and BRAC portion at Department of the Navy level. Therefore, USMC GF does not report DERP or BRAC environmental liabilities.

NonDERP environmental liabilities can change in the future because of changes in laws/regulations and regulatory agencies agreements, and technology advances.

The environmental liabilities for USMC GF are based on accounting estimates that require certain judgments and assumptions that we believe are reasonable based upon information available to us at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if laws/regulations change requiring a different closure method, or if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if further investigation of the environmental sites discloses contamination different than known at the time of the estimates.

Environmental Disclosures

As of June 30	2008	2007
A. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
B. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
C. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

Line A. The USMC GF reported an estimate for Other Environmental Liabilities (OEL). The USMC GF is determining what portion of OEL relates to units put into service after October 1, 1997. Therefore, detailed data is not available at this time.

Lines B. and C. The USMC GF does not have any changes in the environmental liability estimates due to changes in laws, regulations, and technology.

Note 15.	Other Liabilities
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As of June 30	2008			2007
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Deposit Funds and Suspense Account Liabilities	51,438,960.36	0.00	51,438,960.36	14,843,639.11
C. Disbursing Officer Cash	48,826,718.09	0.00	48,826,718.09	27,897,700.89
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	17,222,562.96	28,152,192.95	45,374,755.91	45,518,610.38
F. Custodial Liabilities	374,772.02	0.00	374,772.02	250,855.18
G. Employer Contribution and Payroll Taxes Payable	3,539,060.11	0.00	3,539,060.11	2,735,047.66
H. Other Liabilities	29,032,463.71	0.00	29,032,463.71	33,257,290.73
I. Total Intragovernmental Other Liabilities	\$ 150,434,537.25	\$ 28,152,192.95	\$ 178,586,730.20	\$ 124,503,143.95
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 506,241,622.51	\$ 0.00	\$ 506,241,622.51	\$ 495,708,145.70
B. Advances from Others	601,204.01	0.00	601,204.01	0.00
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	5,282,000.00	34,110,000.00	39,392,000.00	39,392,000.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	684,171,857.73	0.00	684,171,857.73	639,236,438.75
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Contract Holdbacks	0.00	10,363,021.82	10,363,021.82	1,038,063.90
J. Employer Contribution and Payroll Taxes Payable	132,043.03	0.00	132,043.03	406,605.14
K. Contingent Liabilities	(1,432,551.38)	50,668,735.86	49,236,184.48	53,656,700.75
L. Other Liabilities	0.00	0.00	0.00	0.00
M. Total Nonfederal Other Liabilities	\$ 1,194,996,175.90	\$ 95,141,757.68	\$ 1,290,137,933.58	\$ 1,229,437,954.24
3. Total Other Liabilities	\$ 1,345,430,713.15	\$ 123,293,950.63	\$ 1,468,724,663.78	\$ 1,353,941,098.19

Intragovernmental other liabilities-others includes unemployment and employee benefits.

Contingent liabilities balance includes \$48.7 million in estimated future contract financing payments that will be paid to the contractor upon delivery and Government acceptance. In accordance with contract terms, specific rights to the contractor's work vests with the Government when a specific type of contract financing payments is made. This action protects taxpayer funds in the event of the contract nonperformance. These rights should not be misconstrued as the right of ownership. The USMC GF is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Government acceptance. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to USMC GF and the amount of potential future payments are estimable; USMC GF has recognized a contingent liability for estimated future payments, which are conditional pending delivery and Government acceptance.

Contingent liabilities balance, also, includes \$1.4 million in estimated legal liabilities. The FY 2007, Department of Navy/USMC GF began recognizing and disclosing an estimate for contingent legal liabilities. The methodology to determine an estimate for contingent legal liabilities considers the likelihood of an unfavorable outcome or potential liability is provided as an overall assessment of all cases currently pending and not on an individual case basis. For more details, see Note 16, Commitments and Contingencies.

Capital Lease Liability

As of June 30	2008						2007	
	Asset Category							
	Land and Buildings	Equipment	Other	Total	Total			
1. Future Payments Due								
A. 2008	\$	0.00	\$	0.00	\$	0.00	\$	0.00
B. 2009		0.00		0.00		0.00		0.00
C. 2010		0.00		0.00		0.00		0.00
D. 2011		0.00		0.00		0.00		0.00
E. 2012		0.00		0.00		0.00		0.00
F. 2013		0.00		0.00		0.00		0.00
G. After 5 Years		0.00		0.00		0.00		0.00
H. Total Future Lease Payments Due	\$	0.00	\$	0.00	\$	0.00	\$	0.00
I. Less: Imputed Interest Executory Costs		0.00		0.00		0.00		0.00
J. Net Capital Lease Liability	\$	0.00	\$	0.00	\$	0.00	\$	0.00
2. Capital Lease Liabilities Covered by Budgetary Resources							\$	0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources							\$	0.00

Note 16.	Commitments and Contingencies
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Legal Contingencies

The USMC GF, a sub-entity of the Department of the Navy (DON) General Fund, is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests which may ultimately result in settlements or decisions adverse to the Federal Government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown. The USMC GF has accrued contingent liabilities for legal actions where Office of Navy General Counsel considers an adverse decision probable and the amount of the loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the Judgment Fund. Others may be payable from DON resources, either directly or by reimbursement to the Judgment Fund. The USMC GF records Judgment Fund liabilities in Note 12, "Accounts Payable" or Note 15, "Other Liabilities."

The Office of Navy General Counsel conducts a review of litigation and claims threatened or asserted involving the USMC GF to which attorneys devote substantial attention in the form of legal consultation or representation. This review reflects a threshold of materiality of \$3.9 million which applies to individual and aggregate claims, litigation, assessments, or contingencies arising out of a single event or series of events, and includes matters that existed on June 30, 2008.

The USMC GF has 4 cases that individually meet the existing FY 2008 USMC GF materiality threshold of \$3.9 million. The DON legal counsel was unable to express an opinion concerning the likely outcome of these cases. Based on information contained in the FY 2008 Interim Legal Representation Letters, management does not have sufficient reason to believe that it is likely that the Government will be liable for the amounts claimed in individual or aggregated cases.

The DON developed a methodology to determine an estimate for contingent legal liabilities for aggregated cases not individually meeting the \$3.9 million threshold. The DON/USMC began recognizing and disclosing an estimate for contingent legal liabilities beginning 1st Quarter, FY 2007. This average approximates the percentage that has historically been paid on claims. It is based entirely on historical data. The merits of each individual case have not been taken into consideration. Until sufficient historical data can be collected for the Navy Working Capital Fund—Marine Corps, this estimate will consider all USMC funding sources together. The resulting estimate has been recognized and is included in other liabilities in Note 15.

The estimate for those aggregate of cases considered reasonably possible to result in an adverse judgment against USMC is \$17.6 million.

The USMC GF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may or may not result in a future outflow of expenditures. Currently, USMC GF does not have a systemic process by which it captures or assesses these potential contingent liabilities. The USMC GF contingent liabilities for obligations related to undelivered orders for open contracts citing canceled appropriations which remain unfilled or unreconciled and for contractual arrangements are reported at DON level.

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of June 30	2008				2007
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other Actuarial Benefits					
A. FECA	\$ 215,229,341.85		\$ 0.00	\$ 215,229,341.85	\$ 214,433,189.58
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other Actuarial Benefits	\$ 215,229,341.85		\$ 0.00	\$ 215,229,341.85	\$ 214,433,189.58
3. Other Federal Employment Benefits	\$ 1,639,043.05		\$ (1,639,043.05)	\$ 0.00	\$ 6,035,488.13
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 216,868,384.90		\$ (1,639,043.05)	\$ 215,229,341.85	\$ 220,468,677.71

Actuarial Cost Method Used:

Assumptions:

Market Value of Investments in Market-based and Marketable Securities:

The USMC GF actuarial liability for workers' compensation benefits is developed by Department of Labor and provided to USMC GF at the end of each fiscal year. The future workers' compensation benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

Fiscal Year 2007

4.930% in Year 1

5.078% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2007 were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2008	2.90%	4.04%
2009	2.47%	4.00%
2010	2.37%	3.94%
2011+	2.30%	3.94%

The model's resulting projections were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2007 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2007 projection to the average pattern for the projections of the most recent three years. The estimated actuarial liability is updated only at the end of each fiscal year.

The estimate was allocated between USMC GF General Fund and Navy Working Capital Fund-Marine Corps based on the number of civilian employees taken from the Navy Budget Tracking System.

Other federal employment benefits consist primarily of voluntary separation incentive pay for former employees.

Note 1.**Significant Accounting Policies****1.A. Basis of Presentation**

The United States Marine Corps (USMC), a component of the Department of the Navy (DON) has prepared these financial statements to report the financial position and results of operations, as required by the “Chief Financial Officers (CFO) Act of 1990,” Public Law 101-590, expanded by the “Government Management Reform Act of 1994,” Public Law 103-356, and other appropriate legislation. Though USMC produces General Fund (GF) financial statements as a stand-alone entity, USMC remains a subsidiary of the DON financial statements and reporting process. The financial statements have been prepared from the books and records of USMC GF in accordance with the Department of Defense (DoD), Financial Management Regulation (FMR), the Office of Management and Budget (OMB) Circular No. A-136, “Financial Reporting Requirements,” and to the extent possible, generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which USMC GF is responsible unless otherwise noted. Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is not discernable. In addition to the financial statements, and pursuant to OMB directives, USMC GF also prepares financial reports that are used to monitor and control the use of budgetary resources.

The USMC GF is unable to fully implement all elements of GAAP and OMB Circular A-136, due to limitations of its financial and nonfinancial management processes and systems that feed into the financial statements. The USMC GF derives its reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The USMC GF continues to implement process and system improvements addressing these limitations.

The DoD currently has several auditor identified financial statement material weaknesses. The USMC Financial Improvement Initiative program completed in-depth assessment evaluations and has implemented several remediation action efforts, in progress of completing self-evaluation of management controls in compliance with Appendix A sections of OMB A-123 requirements. This effort identified the existence of the following financial statement material weaknesses: (1) Financial Management Systems, (2) Environmental Liabilities, (3) General Property, Plant, and Equipment, (3) Operating Materiel and Supplies, and (4) Accounts Payable. The USMC GF has designed and implemented remediation action to either eliminate or mitigate the financial reporting impact of the root cause and has resolved these issues. There are no other identified financial management weaknesses that are considered material in USMC GF’s financial management and reporting.

1.B. Mission of the Reporting Entity

The USMC was created on November 10, 1775 by an act of the 2nd Continental Congress. The overall mission of USMC is to provide trained and equipped forces to Combatant Commanders in support of the President's National Security Strategy. As set forth in the "National Security Act of 1947," USMC missions are: to seize and defend advanced naval bases and to conduct such land operations as may be essential to the prosecution of a naval campaign; to provide detachments and organizations for service in armed vessels of the Navy or for protection of naval property on naval stations and bases; to develop, with the other Armed Forces, the tactics, techniques, and equipment employed by landing forces in amphibious operations; to train and equip, as required, Marine forces for airborne operations; to develop, with the other Armed Forces, doctrine, procedures, and equipment of interest to USMC for airborne operations which are not provided for by the Army; and to be able to expand from a peacetime posture to meet the needs of war in accordance with mobilization plans.

1.C. Appropriations and Funds

The USMC GF receives its appropriations and funds as general, special, and deposit funds. These appropriations and funds may be either provided solely to USMC GF or shared with other DON activities. The USMC GF uses these appropriations and funds to execute its mission and subsequently report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including military personnel, operation and maintenance, research and development, and procurement.

Special funds accounts are used to record government receipts reserved for a specific purpose. Certain special funds may be designated as earmarked funds. Earmarked Funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. Earmarked funds also have a requirement to account for and report on the receipt, use and retention of revenues and other financing sources that distinguish them from general revenues.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. The USMC GF is acting as an agent or a custodian for funds awaiting distribution.

1.D. Basis of Accounting

The USMC operates a single general fund accounting system – the Standard Accounting, Budgeting, and Reporting System (SABRS). Through this system USMC GF records the majority of the financial transactions reflected in these financial statements. The SABRS is a transaction driven general ledger accounting system that utilizes standardized transactions for processing. General ledger postings are derived from centralized posting logic maintained in a table within the accounting system and applied against detail transactions. The posting logic on this table is maintained in

accordance with all applicable guidance and attempts to meet the standards of GAAP. Both budgetary and proprietary general ledgers are maintained and utilized for reporting. Transactions are entered into the accounting system via interfaces with financial feeder systems, electronically or manually.

The SABRS is interfaced with DoD approved business enterprise systems, such as the Defense Travel System, Standard Procurement System, Defense Civilian Personnel System, and Wide Area Work Flow. These interfaces improve financial reporting and eliminate manual recording by capturing data from the source systems. The SABRS is also Standard Financial Information Structure (SFIS) Phase 1 compliant. The SFIS will provide DoD a solution for identifying financial events in a like manner for all DoD components.

For FY 2008, USMC GF's financial management systems are unable to meet all requirements for full accrual accounting. Many of USMC GF's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of USMC GF's (financial and nonfinancial) legacy systems were designed to record information on a budgetary basis.

The DoD has undertaken efforts to determine the actions required to bring financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). The USMC GF accounting system, SABRS, is USSGL compliant. Until all of USMC GF's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, USMC GF's financial data will be derived from budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities.

The USMC GF has initiated efforts to design and implement the use of a statistical-based estimation model to provide an estimate of period end accruals. This model is applied at the (payment) feeder system level to provide a documented accrual estimate based on historical transaction based projections. In addition, the statistical-based estimation model accrual will be supplemented with documented major contract accruals based on the SABRS core financial system transaction record values for selected contracts standard document number.

In addition, DoD identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the "Government Performance and Results Act" (GPRA). The DoD is working towards a cost reporting methodology that meets the need for cost information required

by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, “Managerial Cost Accounting Concepts and Standards for the Federal Government.”

1.E. Revenues and Other Financing Sources

The USMC GF receives congressional appropriations as financing sources for general funds on either an annual or a multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The USMC GF recognizes revenue as a result of costs incurred or services provided to other federal agencies and the public. Full cost pricing is USMC GF’s standard policy for services provided as required by OMB Circular A-25, “Transmittal Memorandum #1, User Charges.” The USMC GF recognizes revenue when earned within the constraints of current system capabilities. In some instances, revenue is recognized when bills are issued.

The USMC GF does not include nonmonetary support provided by U.S. allies for common defense and mutual security in the Statement of Net Cost and the Note 21, “Reconciliation of Net Cost of Operations to Budget.” The U.S. has cost sharing agreements with other countries that include both direct and indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. fleet is in port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because USMC GF’s financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accruals are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. In the case of Operating Materiel and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to transition toward the consumption method for recognizing OM&S expenses. Operating expenses are adjusted as a result of the elimination of trading partner balances between DoD components. Net increases or decreases in unexpended appropriations are recognized as a change in the net position.

1.G. Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. The USMC GF accounts for all intragovernmental transactions at the transaction level. In an effort to more efficiently identify intragovernmental transactions by customer, USMC GF has implemented the DoD’ trading partner requirements in its accounting system to capture trading partner data. Generally, seller entities within DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to

the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. IntraDoD intragovernmental balances are then eliminated. DoD system limitations and the volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources. The DoD is developing long-term system improvements that will include sufficient up-front edits and controls eliminating the need for after-the-fact reconciliations.

The U.S. Treasury Financial Management Services is responsible for eliminating transactions between DoD and other federal agencies. The Treasury Financial Manual, Part 2-Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government" and the U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" provide guidance for reporting and reconciling intragovernmental balances. While USMC GF is unable to fully reconcile intragovernmental transactions with all federal partners, USMC GF is able to reconcile balances pertaining to "Federal Employees' Compensation Act" transactions with the Department of Labor, and benefit program transactions with Office of Personnel Management.

The DoD's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such interest costs to the benefiting agencies.

1.H. Transactions with Foreign Governments and International Organizations

Each year, USMC GF sells defense articles and services to foreign governments and international organizations under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, DoD has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Payment in U.S. dollars is required in advance.

1.I. Funds with the U.S. Treasury

The USMC GF monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of DFAS, the Military Services, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of USMC GF's cash collections, disbursements, and adjustments

worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

The DFAS has been charged with the responsibility to performing a detailed reconciliation of USMC GF appropriated fund accounts. The reconciliation process results in identifying all reconciling items and through subsequent corrective action has resolved all material unmatched disbursement transactions.

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable fund balance with treasury account. Differences between USMC GF/DON GF's recorded balance in the fund balance with treasury accounts and U.S. Treasury's fund balance with treasury accounts sometimes result and are subsequently reconciled.

1.J. Foreign Currency

Cash is the total of cash resources under the control of DoD, which includes coin, paper currency, negotiable instruments, and amounts held for deposits in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts.

The majority of cash and all foreign currency is classified as nonentity and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The USMC GF conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: operations and maintenance, military personnel, military construction, family housing operations and maintenance, and family housing construction. The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustment to the original obligation amount at the time of payment. The USMC GF does not separately identify currency fluctuation transactions.

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes three categories: accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection history by fund type. The DoD does not recognize an allowance for

estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The USMC GF reports its inventory of repair parts, munitions, and ammunition in related property as OM&S. The USMC GF manages only military or government specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes all items (including ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repairs parts, and support equipment, but excluding real property, installations, and utilities) necessary to equip, operate, maintain and support military activities without distinction as to its application for administrative or combat purposes. Items commonly used in and available from the commercial sector are not managed in USMC GF OM&S management activities. The USMC GF holds materiel based on military need and support for contingencies.

The USMC GF OM&S are presented at the Lower Cost or Market basis using the following pricing methodology. The OM&S non-ammunition inventories are valued at cost using the Latest Acquisition Cost (LAC) method and are comprised of high-volume, high-turnover, lower unit price supplies. The LAC unit prices represent end of period contract prices. All other categories of OM&S inventories are maintained at the historical unit price. The USMC GF has established an interface between the operating materiel supply systems and its core financial accounting system, SABRS.

The USMC GF plans to implement DoD Moving Average Cost inventory pricing policy when the currently planned Global Combat Support System (GCSS) and the Conventional Ammunition Integrated Management System – Ordinance Information System (CAIMS-OIS) is implemented and integrated as a core non-ammunition and munitions inventory systems are integrated with the USMC GF core financial management system, SABRS.

Most of USMC GF's OM&S inventories are currently reported at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The USMC GF uses the latest acquisition cost method because legacy OM&S inventory systems were designed for materiel management rather than accounting. Although the legacy systems provide visibility and accountability over items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the "Federal Financial

Management Improvement Act of 1996” (Public Law 104-208). The OM&S, including munitions not held for sale are valued at standard purchase price.

The USMC GF uses the consumption method for centrally managed and stored inventories such as ammunition, tactical missiles, spare parts, and engines. Non-centrally managed inventories are accounted for on a purchase method which expenses these materiel and supplies as purposed. The GCSS system will serve to provide unit accountability to account for all items on the consumption method of accounting. For FY 2008 OM&S inventories are presented in accordance with GAAP. The USMC GF determined that the recurring high dollar value of OM&S in need of repair is materiel to the financial statements and requires a separate reporting category. Many high dollar items are categorized as OM&S rather than military equipments.

The USMC GF recognizes condemned materiel as “Excess, Obsolete, and Unserviceable.” The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero. Potentially redistributed materiel, presented in previous years as “Excess, Obsolete, and Unserviceable,” is included in the “Held for Use” or “Held for Repair” categories according to its condition.

1.N. Investments in U.S. Treasury Securities

The USMC GF investments in U.S. Treasury securities are reported in the DON General Fund Financial Statements.

1.O. General Property, Plant and Equipment

The USMC GF uses the estimated historical cost for valuing military equipment. The DoD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, and program acquisitions and disposals to create a baseline. The military equipment baseline is updated using expenditure, acquisition and disposals information.

The DoD real property capitalization threshold is currently \$20 thousand. The USMC GF has not implemented this threshold due system and process limitations and is currently using the capitalization threshold of \$100 thousand. Not all military departments have implemented this revised policy due to system and process limitations.

General PP&E assets, exclusive of military equipment, are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and the acquisition cost equals or exceeds DoD’s capitalization threshold of \$100 thousand. The DoD also requires capitalization of improvement costs over the DoD capitalization threshold of \$100 thousand for General PP&E. The DoD depreciates all General PP&E, other than land, which is not depreciated, on a straight-line basis. General PP&E previously capitalized at amounts below \$100 thousand were written off GF financial statements in FY 1998.

When it is in the best interest of the government, the USMC GF provides government property to contractors to complete contract work. The USMC GF either owns or leases such property, or it is purchased directly by the contractor for the government based on the contract terms. When the value of contractor-procured General PP&E exceeds the DoD capitalization threshold, Federal accounting standards require that it be reported on USMC GF's Balance Sheet.

The DoD is developing new policies and a contractor reporting process for Government Furnished Equipment that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, USMC GF reports only government property in the possession of contractors that is maintained in USMC GF's property systems. The DoD has issued new property accountability and reporting requirements that require USMC GF to maintain, in their property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with Federal accounting standards. The USMC GF has established an interface between its accounting system and the Defense Property Accountability System in order to decrease the amount of manual journal vouchers and data calls and increase the efficiency of reported data.

1.P. Advances and Prepayments

The DoD's policy is to record advances and prepayments in accordance with GAAP. As such, payments in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. Not all DoD entities have implemented this policy primarily due to system limitations.

1.Q. Leases

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), USMC GF records the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The USMC GF records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The USMC GF as the lessee receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

Office space and leases entered into by USMC GF in support of contingency operations are the largest component operating leases. These costs were gathered from existing

leases, General Services Administration (GSA) bills, and Inter-service Support Agreements. Future year projections use the Consumer Price Index (CPI), rather than DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites. Equipment leases have a variety of lease terms which are not expected to be renewed upon expiration. Other operating leases are generally one-year leases. The USMC GF expects to continue to reduce the level of owned assets while increasing the number of leased assets. The USMC GF will strive to displace commercial leases with more economical GSA leases.

1.R. Other Assets

Other assets includes those assets, such as military and civil service employee pay advances, travel advances, and certain contracting financing payments that are not reported elsewhere on USMC GF's Balance Sheet.

The USMC GF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, USMC GF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations (FAR), Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Federal Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense FAR Supplement authorizes only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. It is DoD policy to record contract financing payments as Other Assets. The USMC GF does not make financing payment for real property construction; USMC GF construction projects are managed by the Navy and reported in DON Balance Sheet and related notes.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by the SFFAS No 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The USMC GF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The USMC GF's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship, and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for USMC GF's assets. This type of liability has two components: nonenvironmental and environmental. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of the asset based upon DoD's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government." The DoD recognizes nonenvironmental disposal liabilities for military equipment nuclear-powered assets when placed in service. Such amounts are developed in conjunction with, and not easily identifiable from, environmental disposal costs. The USMC GF does not have nuclear-powered assets, therefore, does not recognize nonenvironmental disposal liabilities for military equipment nuclear-powered assets.

1.T. Accrued Leave

The USMC GF reports as liabilities military leave and civilian earned leave, except sick leave, that has been accrued and not used as of the Balance Sheet date. Sick leave is expensed as taken. The liability reported at the end of the accounting period reflects the current pay rates.

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred. Cumulative results of operations represent the net difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, the cumulative results also include donations and transfers in and out of assets that were not reimbursement.

1.V. Treaties for Use of Foreign Bases

The DoD has the use of the land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The USMC GF purchases capital assets overseas with

appropriated funds; however, the host country retains the title to land and improvements. Generally, treaty terms allow USMC GF continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, whereby use of the foreign bases is prohibited, losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Comparative Data

The USMC GF financial statements and notes are presented on a comparative basis.

1.X. Unexpended Obligations

The USMC GF obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered unless title passes.

1.Y. Undistributed Disbursements and Collection

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. These amounts should agree with undistributed amounts reported on the monthly accounting reports. In-transit payments are those payments that have been made, but have not been recorded in the fund holder's accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities.

1.Z. Significant Events

Beginning 4th Quarter, FY 2007, DoD began presenting the Statement of Financing (SOF) as a note in accordance with OMB Circular A-136. The SOF will no longer be considered a basic statement; but is now referred to as "Reconciliation of Net Cost of Operations to Budget."

Note 2.	Nonentity Assets
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As of June 30	2008	2007
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 76,292,866.71	\$ 35,127,113.87
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 76,292,866.71	\$ 35,127,113.87
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 48,820,383.58	\$ 27,897,700.89
B. Accounts Receivable	381,056.53	250,855.18
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 49,201,440.11	\$ 28,148,556.07
3. Total Nonentity Assets	\$ 125,494,306.82	\$ 63,275,669.94
4. Total Entity Assets	\$ 44,025,411,654.40	\$ 39,055,470,612.72
5. Total Assets	\$ 44,150,905,961.22	\$ 39,118,746,282.66

Nonentity assets are assets for which USMC GF maintains stewardship accountability and responsibility to report, but are not available for USMC's operations.

The nonentity fund balance with treasury represents amounts in USMC GF deposit fund accounts. The deposit fund accounts contain various withholdings from Marines' pay such as taxes, allotments, and garnishments held until the appropriate disbursement date. The USMC GF maintains stewardship accountability and reporting responsibility for these assets, but the assets are not available for use in operations.

Nonentity cash and other monetary assets represent disbursing officers' cash and foreign currency as reported on the Statement of Accountability. These assets are held by USMC disbursing officers, as agents of the U.S. Treasury, and are not available for use in USMC's operations.

The nonentity nonfederal accounts receivable represents interest, fines and penalties receivable on aged delinquent debt. Once collected, nonentity receivables are deposited to the U.S. Treasury as miscellaneous receipts.

Note 3.	Fund Balance with Treasury
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As of June 30	2008	2007
1. Fund Balances		
A. Appropriated Funds	\$ 25,528,960,497.28	\$ 23,892,674,697.68
B. Revolving Funds	0.00	0.00
C. Trust Funds	0.00	0.00
D. Special Funds	582,320.04	485,934.37
E. Other Fund Types	76,292,866.71	35,127,113.87
F. Total Fund Balances	\$ 25,605,835,684.03	\$ 23,928,287,745.92
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 19,081,765,441.28	\$ 21,835,548,985.76
B. Fund Balance per USMC GF	25,605,835,684.03	23,928,287,745.92
3. Reconciling Amount	\$ (6,524,070,242.75)	\$ (2,092,738,760.16)

Explanation of Reconciliation Amount

(In thousands)

Shared Appropriations per USMC GF*	\$2,458,294
Suspense and Deposit Accounts per USMC GF**	(32,727)
Amounts Appropriated ***	4,098,503
Total Reconciling Amount	\$6,524,070

*This amount is the fund balance with Treasury for USMC GF portion of appropriations shared with the U.S. Navy: Research and Development, Test and Evaluation, Navy; Procurement of Ammunition, Navy and Marine Corps; Wildlife Conservation, Military Reservations, Navy; and Family Housing Operation and Maintenance, Navy and Marine Corps. The U.S. Treasury maintains and reports fund balances at the Treasury Index appropriation level. As a result, the U.S. Treasury does not separately identify USMC GF portion of fund balance with Treasury for the shared appropriations.

**This amount is the fund balance with Treasury for suspense and deposit accounts shared with the U.S. Navy: Disbursing Officer Suspense Account; Lost or Cancelled Treasury Checks Suspense Account; Interfund/Intragovernmental Payment and Collection (IPAC) Suspense Account; and Small Escrow Amounts Deposit Account. The U.S. Treasury does not separately identify USMC GF portion of fund balance with treasury for the shared suspense and deposit accounts.

***This amount is the total fund balance with Treasury for the appropriations that were approved for supplemental funding bill passed on June 30, 2008, for which the Treasury warrant was not processed until July 1, 2008.

Other fund types represent USMC GF deposit fund accounts. The deposit fund accounts contain various withholdings from Marines' pay such as taxes, allotments, and garnishments held until the appropriate disbursement date. The USMC GF maintains stewardship accountability and reporting responsibility for these assets, but the assets are not available for use in USMC GF operations.

Status of Fund Balance with Treasury

As of June 30	2008	2007
1. Unobligated Balance		
A. Available	\$ 8,726,217,743.50	\$ 10,293,571,476.64
B. Unavailable	4,872,123,416.63	654,972,092.38
2. Obligated Balance not yet Disbursed	\$ 12,269,834,707.57	\$ 13,219,107,086.52
3. Nonbudgetary FBWT	\$ 51,438,960.36	\$ 14,843,639.11
4. NonFBWT Budgetary Accounts	\$ (313,779,144.03)	\$ (254,206,548.73)
5. Total	<u>\$ 25,605,835,684.03</u>	<u>\$ 23,928,287,745.92</u>

Status of Fund Balance with Treasury

The Status of Fund Balance with Treasury reflects the budgetary resources to support the fund balance with Treasury.

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Unobligated balance is classified as available or unavailable and is associated with appropriations expiring at fiscal year end that remain available only for obligation adjustments until the account is closed.

Obligated balance not yet disbursed represents funds that have been obligated for goods that have not been received, services that have not been performed, and goods and services that have been delivered/received but not yet paid.

Nonbudgetary fund balance with Treasury includes entity and nonentity fund balance with Treasury accounts which represent adjustments that do not have budgetary authority, such as unavailable receipt accounts or clearing accounts. Nonbudgetary fund balance with Treasury is comprised of the fund balance with Treasury for the Disbursing Officer Suspense Account, Lost or Cancelled Treasury Checks Suspense Account, Interfund/IPAC Suspense Account, Small Escrow Accounts Deposit Account, and the Pay of the Marine Corps Deposit Account.

Nonfund balance with Treasury budgetary accounts represent adjustments to budgetary accounts that do not affect fund balance with Treasury. Nonfund balance with Treasury budgetary accounts are comprised of unfilled customer orders without advance and reimbursements and other income earned-receivable. This category reduces the Status of Fund Balance with Treasury.

Unobligated balances are segregated to show available and unavailable amounts in the note schedule. Certain unobligated balances may be restricted to future use and are not apportioned for current use. The USMC GF has no restrictions on unavailable/unobligated balances

Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2006	2007	2008	(Decrease)/ Increase from FY 2007 - 2008
<u>Account</u>				
F3845 – Personal Property Proceeds	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Budget Clearing Account Suspense	(16,965,069.51)	(20,274,421.23)	(25,316,812.29)	(5,042,391.06)
F3880 – Lost or Cancelled Treasury Checks	(22,594.78)	(9,053.53)	(97,489.06)	(88,435.53)
F3882 – Uniformed Services Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
F3885 – Interfund/IPAC Suspense	0.00	0.00	560,395.00	560,395.00
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
Total	\$ (16,987,664.29)	\$ (20,283,474.76)	\$ (24,853,906.35)	\$ (4,570,431.59)

Disclosures Related to Problem Disbursements

As of June 30	2006	2007	2008	(Decrease)/ Increase from FY 2007 to 2008
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	\$ 50,497,703.22	\$ 31,582,067.29	\$ 54,560,581.24	\$ 22,978,513.95
B. Negative Unliquidated Obligations (NULO)	8,056,553.06	5,636,003.86	17,380,414.67	11,744,410.81
C. In-Transit Disbursements	26,671,638.36	327,520,339.63	262,838,751.07	(64,681,588.56)
Total	\$ 85,225,894.64	\$ 364,738,410.78	\$ 334,779,746.98	\$ (29,958,663.80)

Note 4.	Investments and Related Interest
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As of June 30	2008				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	0.00		0.00	0.00	0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

As of June 30	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	0.00		0.00	0.00	0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	0.00
4. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

The USMC GF investments and related interest are reported under the Department of the Navy General Fund.

Note 5.	Accounts Receivable
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As of June 30	2008			2007
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 53,964,097.85	N/A	\$ 53,964,097.85	\$ 35,685,923.04
2. Nonfederal Receivables (From the Public)	\$ 43,816,814.74	\$ (11,650,563.36)	\$ 32,166,251.38	\$ 24,683,117.15
3. Total Accounts Receivable	\$ 97,780,912.59	\$ (11,650,563.36)	\$ 86,130,349.23	\$ 60,369,040.19

Aged Accounts Receivable

As of June 30	2008		4th Quarter 2007	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	\$ 48,217,614.61	\$ 22,786,316.07	\$ 62,069,133.49	\$ 36,122,033.58
Noncurrent	0.00	0.00	0.00	0.00
Delinquent				
1 to 30 days	\$ 2,475,773.99	\$ 13,845,473.78	\$ 319,688.52	\$ 6,672,157.35
31 to 60 days	685,703.24	1,687,588.54	45,595.84	860,465.20
61 to 90 days	4,991,586.24	1,251,411.80	11,699.83	1,244,190.89
91 to 180 days	50,742.89	(251,673.24)	113,548.42	1,423,985.90
181 days to 1 year	9,594.99	1,051,869.24	35,897.97	1,685,747.72
Greater than 1 year and less than or equal to 2 years	0.00	2,596,673.31	0.00	2,215,868.08
Greater than 2 years and less than or equal to 6 years	0.00	672,728.96	0.00	523,915.66
Greater than 6 years and less than or equal to 10 years	0.00	105,823.17	0.00	206,069.34
Greater than 10 years	0.00	53,321.78	0.00	60,210.72
Subtotal	\$ 56,431,015.96	\$ 43,799,533.41	\$ 62,595,564.07	\$ 51,014,644.44
Less Supported Undistributed Collections	(1,286,447.88)	10,946.82	(15,436,043.87)	(10,459,166.08)
Less Eliminations	(1,180,470.23)	0.00	10,356,575.29	0.00
Less Other	0.00	0.00	0.00	0.00
Total	\$ 53,964,097.85	\$ 43,810,480.23	\$ 57,516,095.49	\$ 40,555,478.36

Note 6.	Other Assets
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As of June 30	2008	2007
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 950,561.55	\$ 1,076,098.84
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 950,561.55	\$ 1,076,098.84
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 735,848,898.60	\$ 681,741,318.37
B. Advances and Prepayments on behalf of Foreign Governments	0.00	0.00
C. Advances and Prepayments	31,688,985.95	27,918,638.88
D. Other Assets (With the Public)	0.00	0.00
E. Total Nonfederal Other Assets	\$ 767,537,884.55	\$ 709,659,957.25
3. Total Other Assets	\$ 768,488,446.10	\$ 710,736,056.09

Other assets (with the public) is comprised of travel advances made to Marines and civilian personnel.

Contract terms and conditions for certain types of contract financing payments convey certain rights to USMC GF that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy; however, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Government. The Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and USMC GF is not obligated to make payment to the contractor until delivery and acceptance.

The Contract Financing Payment balance of \$735.8 million is comprised of \$688 million in contract financing payments and an additional \$47.8 million in estimated future payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

Note 7.	Cash and Other Monetary Assets
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As of June 30	2008	2007
1. Cash	\$ 48,820,383.58	\$ 27,883,063.21
2. Foreign Currency	0.00	14,637.68
3. Other Monetary Assets	0.00	0.00
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 48,820,383.58	\$ 27,897,700.89

Cash and foreign currency are nonentity assets and, as such, are considered restricted assets that are held by USMC GF but not available to use in its operations. Cash or \$48.8 million is restricted. Cash is held by USMC disbursing officers as agents of the U.S. Treasury.

The amounts reported as cash consist of cash held by disbursing officers to carry out their payment, collection, and foreign currency accommodation exchange mission. The source of the amounts reported is the Statement of Accountability, a DoD disbursing officer's report.

Note 9.	Inventory and Related Property
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As of June 30	2008	2007
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materiel & Supplies, Net	5,998,019,987.71	5,634,746,245.63
3. Stockpile Materiel, Net	0.00	0.00
4. Total	\$ 5,998,019,987.71	\$ 5,634,746,245.63

Inventory, Net

As of June 30	2008			2007	Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
1. Inventory Categories					
A. Available and Purchased for Resale	\$ 0.00	\$ 0.00	0.00	\$ 0.00	LAC,MAC
B. Held for Repair	0.00	0.00	0.00	0.00	LAC,MAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	NRV
D. Raw Materiel	0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process	0.00	0.00	0.00	0.00	AC
F. Total	\$ 0.00	\$ 0.00	0.00	\$ 0.00	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
AC = Actual Cost

NRV = Net Realizable Value
O = Other
MAC = Moving Average Cost

Operating Materiel and Supplies, Net

As of June 30	2008			2007	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
1. OM&S Categories					
A. Held for Use	\$ 5,493,200,174.64	\$ 0.00	\$ 5,493,200,174.64	\$ 5,066,790,617.89	SP, LAC
B. Held for Repair	504,819,813.07	0.00	504,819,813.07	567,955,627.74	SP, LAC
C. Excess, Obsolete, and Unserviceable	82,226,263.63	(82,226,263.63)	0.00	0.00	NRV
D. Total	\$ 6,080,246,251.34	\$ (82,226,263.63)	\$ 5,998,019,987.71	\$ 5,634,746,245.63	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

MAC = Moving Average Cost

General Composition of Operating Materiel and Supplies (OM&S)

The OM&S includes (1) ammunition and munitions that consists of spare and repair parts and conventional missiles, and (2) Appropriation Purchase Account (APA) Secondary Inventory that consists of spare and repair parts, clothing and textiles, medical and dental supplies, and fuel.

Restrictions on Operating Materiel and Supplies

There are no restrictions on the use of OM&S.

Decision Criteria for Identifying the Category to which Operating Materiel and Supplies are Assigned

The USMC GF determines reporting categories for OM&S based on condition codes assigned to individual inventory items.

Of the \$6.0 billion OM&S, \$4.5 billion is valued using latest acquisition cost adjusted for gains and losses, the remaining, \$1.5 billion is valued at standard price.

Stockpile Materiel, Net

As of June 30	2008			2007	Valuation Method
	Stockpile Materiel Amount	Allowance for Gains (Losses)	Stockpile Materiel, Net	Stockpile Materiel, Net	
1. Stockpile Materiel Categories					
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	AC, LCM
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost

NRV = Net Realizable Value
LCM = Lower of Cost or Market
O = Other

Note 10. General PP&E, Net

As of June 30	2008					2007
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
1. Major Asset Classes						
A. Land	N/A	N/A	\$ 166,286,376.00	N/A	\$ 166,286,376.00	\$ 156,004,689.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	7,768,531,671.00	\$ (4,053,241,971.42)	3,715,289,699.58	3,559,585,651.41
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00	0.00
D. Software	S/L	2-5 Or 10	0.00	0.00	0.00	0.00
E. General Equipment	S/L	5 or 10	505,940,704.09	(163,401,054.10)	342,539,649.99	42,589,909.53
F. Military Equipment	S/L	Various	9,559,638,674.00	(2,140,143,289.00)	7,419,495,385.00	4,998,529,244.00
G. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00	0.00
H. Construction-in- Progress	N/A	N/A	0.00	N/A	0.00	0.00
I. Other			0.00	0.00	0.00	0.00
J. Total General PP&E			\$ 18,000,397,425.09	\$ (6,356,786,314.52)	\$ 11,643,611,110.57	\$ 8,756,709,493.94

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line N/A = Not Applicable

Restrictions on the use or convertibility of General Property, Plant, and Equipment (PP&E), Net
For USMC GF sites outside of the continental U.S. there are no restrictions on the use or convertibility of General PP&E in accordance with international agreements with Japan. We have no information regarding restrictions on USMC GF General PP&E in Iraq or Afghanistan.

Heritage Assets

The processes used to define items as having heritage significance vary between categories and type of assets being evaluated. Subject matter experts, including historians and curators, play a significant role in the definition process in addition to other criteria such as being listed on the National Register of Historic Places. In all cases, a myriad of federal statutes, service regulations, and other guidelines mandate heritage significance or provide guidance in its determination.

The methodology used to report the condition of the heritage assets was a combination of visual assessment of the objects, historic value to USMC GF collection, and general display and storage standards for historic collections. The overall condition of the collection objects is good.

Stewardship Land

The USMC GF follows Department of Defense (DoD) Financial Management Regulation definition of stewardship land to include public domain, land set aside, and donated land. Within the definition of stewardship land, land can be further categorized as improved, semi-

improved or in the other category of land. Some of this land is used as a buffer around perimeter of Marine Corps installations but is not limited to, grazing land and forestry maintenance areas. The USMC GF strives to be a responsible steward of the land and maintain it in a way that protect human health and the environmental and allows for training and support of force readiness.

Museums

Museums are buildings, places, or institutions devoted to the acquisition, conservation, study, exhibition, and educational interpretation of objects having scientific, historical, or artistic value. The Secretary of the Navy Instruction 5755.1A, "Navy Museums," defines the scope of the Navy Museum program.

Any additional information regarding heritage assets, multi-use heritage assets, and stewardship land is reported in Required Supplementary Information.

Assets Under Capital Lease

As of June 30	2008	2007
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 0.00	\$ 0.00
B. Equipment	0.00	0.00
C. Accumulated Amortization	0.00	0.00
D. Total Capital Leases	<u>\$ 0.00</u>	<u>\$ 0.00</u>

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of June 30	2008	2007
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 605,704.72	\$ 0.00
B. Debt	0.00	0.00
C. Other	123,565,555.14	78,924,688.22
D. Total Intragovernmental Liabilities	\$ 124,171,259.86	\$ 78,924,688.22
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 3,114,003.38	\$ 2,186,172.48
B. Military Retirement and Other Federal Employment Benefits	215,229,341.85	214,433,189.58
C. Environmental Liabilities	224,645,153.00	226,435,891.00
D. Other Liabilities	724,952,494.73	679,699,731.75
E. Total Nonfederal Liabilities	\$ 1,167,940,992.96	\$ 1,122,754,984.81
3. Total Liabilities Not Covered by Budgetary Resources	\$ 1,292,112,252.82	\$ 1,201,679,673.03
4. Total Liabilities Covered by Budgetary Resources	\$ 1,768,697,500.89	\$ 1,434,914,268.90
5. Total Liabilities	\$ 3,060,809,753.71	\$ 2,636,593,941.93

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided.

Material Amounts Not Covered by Budgetary Resources.

Unfunded military and civilian leave liability, \$684.2 million leave is not covered by budgetary resources because it is funded as leave is taken. Environmental Liabilities, \$224.6 million, are estimates related to future events that will be budgeted for when those assets are removed from service and cleaned up in future years. The Military Retirement and Other Federal Employment Benefits, \$215.2 million are future actuarial liabilities. These liabilities are not covered by realized budgetary resources as of the Balance Sheet date. Budgetary authority to satisfy these liabilities is expected to be provided in a future Defense Appropriations Act. When that future budgetary authority is provided, these respective liabilities will be recorded as covered by budgetary resources with an associated funded expense.

Intragovernmental liabilities – other (not covered by budgetary resources) includes liability for nonentity assets (disbursing officer's cash), \$49.2 million, FECA, \$45.4 million, and unemployment compensation, \$29.0 million.

Nonfederal liabilities - other liabilities (not covered by budgetary resources) includes civilian and military unfunded leave liability, \$684.2 million.

Military Retirement and other Federal Employment Benefits not covered by budgetary resources is comprised of various employee actuarial Federal Employees Compensation Act liabilities not due and payable during the current fiscal year. Refer to Note 17, "Military Retirement and Other Federal Employment Benefits," for additional details and disclosures.

Note 12.	Accounts Payable
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As of June 30	2008			2007
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 131,254,586.56	\$ N/A	\$ 131,254,586.56	\$ 188,618,081.68
2. Nonfederal Payables (to the Public)	1,019,316,965.47	0.00	1,019,316,965.47	647,130,193.35
3. Total	\$ 1,150,571,552.03	\$ 0.00	\$ 1,150,571,552.03	\$ 835,748,275.03

The USMC GF's systems do not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer-side balances are adjusted to agree with internal seller-side balances for revenue, accounts receivable, and unearned revenue. Accounts payable were adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13.	Debt
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As of June 30	2008			2007	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)					
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Total Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

Note 14.**Environmental Liabilities and Disposal Liabilities**

As of June 30	2008			2007
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities--				
Nonfederal				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Active Installations—Military Munitions Response Program (MMRP)	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites—IRP and BD/DR	0.00	0.00	0.00	0.00
4. Formerly Used Defense Sites--MMRP	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Liabilities—Non-BRAC				
1. Environmental Corrective Action	0.00	30,956,023.00	30,956,023.00	40,636,736.00
2. Environmental Closure Requirements	0.00	193,689,130.00	193,689,130.00	185,799,155.00
3. Environmental Response at Operational Ranges	0.00	0.00	0.00	0.00
4. Asbestos	0.00	0.00	0.00	0.00
5. Non-Military Equipment	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure Installations				
1. Installation Restoration Program	0.00	0.00	0.00	0.00
2. Military Munitions Response Program	0.00	0.00	0.00	0.00
3. Environmental Corrective Action / Closure Requirements	0.00	0.00	0.00	0.00
4. Asbestos	0.00	0.00	0.00	0.00
5. Non-Military Equipment	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Military Equipment / Weapons Programs				
1. Nuclear Powered Military Equipment / Spent Nuclear Fuel	0.00	0.00	0.00	0.00
2. Non-Nuclear Powered Military Equipment	0.00	0.00	0.00	0.00
3. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
E. Chemical Weapons Disposal Programs				
1. Chemical Agents and Munitions Destruction (CAMD)	0.00	0.00	0.00	0.00
2. CAMD Assembled Chemical Weapons Assessment (ACWA)	0.00	0.00	0.00	0.00
3. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities	\$ 0.00	\$ 224,645,153.00	\$ 224,645,153.00	\$ 226,435,891.00

Environmental Liabilities Nonfederal

Other Accrued Environmental Liabilities – NonBRAC

In the 3rd Quarter, FY 2008, USMC GF reported \$31.0 million in Environmental Corrective Action and \$193.7 million in Environmental Closure Requirements. The USMC GF is continuing efforts to complete their survey and estimations of USMC GF environmental liabilities of closure/decommissioning requirements for ongoing operations.

The Resource Conservation and Recovery Act (RCRA) of 1976 as amended by the Hazardous and Solid Waste Amendments of 1984, was the first comprehensive federal effort to deal with safe disposal of all types of hazardous wastes, and provides for “cradle to grave” tracking of hazardous wastes. The RCRA addresses and requires permits for solid waste and hazardous waste closure and corrective action, including solid waste landfill and hazardous waste permitted storage facility closures. Permits are required for treatment, storage or disposal. Requirements for underground storage tanks are also contained in RCRA.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), commonly referred to as the Superfund legislation, provided for Federal agencies authority to respond to the release or the substantial threat of release of hazardous substances into the environment. The CERCLA was amended several times; one of the amendments was the Superfund Amendment and Reauthorization Act of 1986. This amendment established procedures to ensure that actual or threatened hazardous substance releases have proper responses. The procedures address reporting, investigating, remedy selection, and responsive provisions.

The Clean Water Act (CWA) of 1977, Section 405 Disposal of Sewage Sludge, amended the Federal Water Pollution Control Act. The purpose of CWA is to restore and maintain the integrity of the nation’s waters. Facilities may dispose of sewage sludge on site from the operation of a treatment works. The CWA implementing regulations established closure and post closure requirements for sewage sludge disposal. To help protect the nation’s drinking water supply, including underground injections through a permitting scheme implemented by the states is the purpose of the Safe Drinking Water Act (SDWA) of 1974, amended in 1986 to include Wellhead Protection Areas. The SDWA regulates the underground disposal of wastes in deep wells and establishes a program to protect public water supply wells. One requirement to protect public water supply wells addresses closure of Class I injection wells used for industrial hazardous, industrial nonhazardous and municipal (nonhazardous) waste.

The USMC GF uses engineering estimates and independently validated models to estimate environmental costs. The models are contained within the Remedial Action Cost Engineering Requirements and the Normalization of Data System. The Department validates the models in accordance with DoD Instruction 5000.61 and primarily uses the models to estimate the liabilities based on data received during a preliminary assessment and initial site investigation. The USMC GF primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cost estimates are complete, USMC GF complies with accounting standards to assign costs to current operating periods. The USMC GF has already expensed the costs for cleanup associated with General PP&E placed into service prior to

October 1, 1997, unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, then the USMC GF expensed that portion of the asset that has passed since General PP&E was placed into service and is systematically recognizing the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the USMC GF expenses the associated environmental costs systematically over the life of the asset. The USMC GF expenses the full cost to clean up contamination for Stewardship PP&E at the time the asset is placed into service.

The USMC GF uses two methods for systematic recognition: physical capacity for operating landfills and life expectancy in years for all other assets.

Other Accrued Environmental Costs (NonDERP funds), Cost, Base Realignment and Closure (BRAC), and Environmental Disposal for Weapons systems Programs

The USMC GF defines NonDERP environmental sites/units as those sites/units associated with on-going operations such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retro fill, and/or disposal of the Polychlorinated Biphenyls (PCB) transformers, underground storage tank remedial investigation and closure. The USMC GF has reported NonDERP environmental liabilities for USMC GF installations totaled 225 projects and covered approximately 3,290 sites. The projects span the following nonDERP reporting categories: (1) closure for units or sites put into service prior to September 30, 1997, (2) closure for units or sites put into service after September 30, 1997, and (3) corrective actions. There are no projects that are categorized as NonDERP environmental liability for “response at active ranges” and other reporting categories. For units or sites put into service after September 30, 1997, the number of years of service was used to allocate the liability for the current fiscal year and the accumulated liability to date.

The U.S. Navy centrally manages and executes DERP and BRAC portion at Department of the Navy level. Therefore, USMC GF does not report DERP or BRAC environmental liabilities.

NonDERP environmental liabilities can change in the future because of changes in laws/regulations and regulatory agencies agreements, and technology advances.

The environmental liabilities for USMC GF are based on accounting estimates that require certain judgments and assumptions that we believe are reasonable based upon information available to us at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if laws/regulations change requiring a different closure method, or if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if further investigation of the environmental sites discloses contamination different than known at the time of the estimates.

Environmental Disclosures

As of June 30	2008	2007
A. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
B. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
C. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

Line A. The USMC GF reported an estimate for Other Environmental Liabilities (OEL). The USMC GF is determining what portion of OEL relates to units put into service after October 1, 1997. Therefore, detailed data is not available at this time.

Lines B. and C. The USMC GF does not have any changes in the environmental liability estimates due to changes in laws, regulations, and technology.

Note 15.	Other Liabilities
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As of June 30	2008			2007
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Deposit Funds and Suspense Account Liabilities	51,438,960.36	0.00	51,438,960.36	14,843,639.11
C. Disbursing Officer Cash	48,826,718.09	0.00	48,826,718.09	27,897,700.89
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	17,222,562.96	28,152,192.95	45,374,755.91	45,518,610.38
F. Custodial Liabilities	374,772.02	0.00	374,772.02	250,855.18
G. Employer Contribution and Payroll Taxes Payable	3,539,060.11	0.00	3,539,060.11	2,735,047.66
H. Other Liabilities	29,032,463.71	0.00	29,032,463.71	33,257,290.73
I. Total Intragovernmental Other Liabilities	\$ 150,434,537.25	\$ 28,152,192.95	\$ 178,586,730.20	\$ 124,503,143.95
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 506,241,622.51	\$ 0.00	\$ 506,241,622.51	\$ 495,708,145.70
B. Advances from Others	601,204.01	0.00	601,204.01	0.00
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	5,282,000.00	34,110,000.00	39,392,000.00	39,392,000.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	684,171,857.73	0.00	684,171,857.73	639,236,438.75
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Contract Holdbacks	0.00	10,363,021.82	10,363,021.82	1,038,063.90
J. Employer Contribution and Payroll Taxes Payable	132,043.03	0.00	132,043.03	406,605.14
K. Contingent Liabilities	(1,432,551.38)	50,668,735.86	49,236,184.48	53,656,700.75
L. Other Liabilities	0.00	0.00	0.00	0.00
M. Total Nonfederal Other Liabilities	\$ 1,194,996,175.90	\$ 95,141,757.68	\$ 1,290,137,933.58	\$ 1,229,437,954.24
3. Total Other Liabilities	\$ 1,345,430,713.15	\$ 123,293,950.63	\$ 1,468,724,663.78	\$ 1,353,941,098.19

Intragovernmental other liabilities-others includes unemployment and employee benefits.

Contingent liabilities balance includes \$48.7 million in estimated future contract financing payments that will be paid to the contractor upon delivery and Government acceptance. In accordance with contract terms, specific rights to the contractor's work vests with the Government when a specific type of contract financing payments is made. This action protects taxpayer funds in the event of the contract nonperformance. These rights should not be misconstrued as the right of ownership. The USMC GF is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Government acceptance. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to USMC GF and the amount of potential future payments are estimable; USMC GF has recognized a contingent liability for estimated future payments, which are conditional pending delivery and Government acceptance.

Contingent liabilities balance, also, includes \$1.4 million in estimated legal liabilities. The FY 2007, Department of Navy/USMC GF began recognizing and disclosing an estimate for contingent legal liabilities. The methodology to determine an estimate for contingent legal liabilities considers the likelihood of an unfavorable outcome or potential liability is provided as an overall assessment of all cases currently pending and not on an individual case basis. For more details, see Note 16, Commitments and Contingencies.

Capital Lease Liability

As of June 30	2008								2007	
	Asset Category									
	Land and Buildings		Equipment		Other		Total		Total	
1. Future Payments Due										
A. 2008	\$	0.00	\$	0.00	\$	0.00	\$	0.00	\$	0.00
B. 2009		0.00		0.00		0.00		0.00		0.00
C. 2010		0.00		0.00		0.00		0.00		0.00
D. 2011		0.00		0.00		0.00		0.00		0.00
E. 2012		0.00		0.00		0.00		0.00		0.00
F. 2013		0.00		0.00		0.00		0.00		0.00
G. After 5 Years		0.00		0.00		0.00		0.00		0.00
H. Total Future Lease Payments Due	\$	0.00	\$	0.00	\$	0.00	\$	0.00	\$	0.00
I. Less: Imputed Interest Executory Costs		0.00		0.00		0.00		0.00		0.00
J. Net Capital Lease Liability	\$	0.00	\$	0.00	\$	0.00	\$	0.00	\$	0.00
2. Capital Lease Liabilities Covered by Budgetary Resources							\$	0.00	\$	0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources							\$	0.00	\$	0.00

Note 16.	Commitments and Contingencies
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Legal Contingencies

The USMC GF, a sub-entity of the Department of the Navy (DON) General Fund, is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests which may ultimately result in settlements or decisions adverse to the Federal Government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown. The USMC GF has accrued contingent liabilities for legal actions where Office of Navy General Counsel considers an adverse decision probable and the amount of the loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the Judgment Fund. Others may be payable from DON resources, either directly or by reimbursement to the Judgment Fund. The USMC GF records Judgment Fund liabilities in Note 12, "Accounts Payable" or Note 15, "Other Liabilities."

The Office of Navy General Counsel conducts a review of litigation and claims threatened or asserted involving the USMC GF to which attorneys devote substantial attention in the form of legal consultation or representation. This review reflects a threshold of materiality of \$3.9 million which applies to individual and aggregate claims, litigation, assessments, or contingencies arising out of a single event or series of events, and includes matters that existed on June 30, 2008.

The USMC GF has 4 cases that individually meet the existing FY 2008 USMC GF materiality threshold of \$3.9 million. The DON legal counsel was unable to express an opinion concerning the likely outcome of these cases. Based on information contained in the FY 2008 Interim Legal Representation Letters, management does not have sufficient reason to believe that it is likely that the Government will be liable for the amounts claimed in individual or aggregated cases.

The DON developed a methodology to determine an estimate for contingent legal liabilities for aggregated cases not individually meeting the \$3.9 million threshold. The DON/USMC began recognizing and disclosing an estimate for contingent legal liabilities beginning 1st Quarter, FY 2007. This average approximates the percentage that has historically been paid on claims. It is based entirely on historical data. The merits of each individual case have not been taken into consideration. Until sufficient historical data can be collected for the Navy Working Capital Fund—Marine Corps, this estimate will consider all USMC funding sources together. The resulting estimate has been recognized and is included in other liabilities in Note 15.

The estimate for those aggregate of cases considered reasonably possible to result in an adverse judgment against USMC is \$17.6 million.

The USMC GF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may or may not result in a future outflow of expenditures. Currently, USMC GF does not have a systemic process by which it captures or assesses these potential contingent liabilities. The USMC GF contingent liabilities for obligations related to undelivered orders for open contracts citing canceled appropriations which remain unfilled or unreconciled and for contractual arrangements are reported at DON level.

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of June 30	2008				2007
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other Actuarial Benefits					
A. FECA	\$ 215,229,341.85		\$ 0.00	\$ 215,229,341.85	\$ 214,433,189.58
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other Actuarial Benefits	\$ 215,229,341.85		\$ 0.00	\$ 215,229,341.85	\$ 214,433,189.58
3. Other Federal Employment Benefits	\$ 1,639,043.05		\$ (1,639,043.05)	\$ 0.00	\$ 6,035,488.13
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 216,868,384.90		\$ (1,639,043.05)	\$ 215,229,341.85	\$ 220,468,677.71

Actuarial Cost Method Used:

Assumptions:

Market Value of Investments in Market-based and Marketable Securities:

The USMC GF actuarial liability for workers' compensation benefits is developed by Department of Labor and provided to USMC GF at the end of each fiscal year. The future workers' compensation benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

Fiscal Year 2007

4.930% in Year 1

5.078% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2007 were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2008	2.90%	4.04%
2009	2.47%	4.00%
2010	2.37%	3.94%
2011+	2.30%	3.94%

The model's resulting projections were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2007 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2007 projection to the average pattern for the projections of the most recent three years. The estimated actuarial liability is updated only at the end of each fiscal year.

The estimate was allocated between USMC GF General Fund and Navy Working Capital Fund-Marine Corps based on the number of civilian employees taken from the Navy Budget Tracking System.

Other federal employment benefits consist primarily of voluntary separation incentive pay for former employees.